

BUCHANAN CAPITAL INC

Senator Dee Brown, Chair and Honorable Members
State Administration and Veterans' Affairs Interim Committee

Dear Senator Brown,

I appreciate the invitation to appear before your Committee and am very sorry I cannot make it.

I wanted to share by letter a few points. The views are my own and not the Board of Investments.

- I. The actuarial assumptions now represent a very politicalized process versus sound fiduciary management. The actuarial rate should be set by those in charge of investing the retirement plans, namely the Montana Board of Investments.
- II. The recent setting of the actuarial assumption by the Montana Public Employees Retirement Board emphasizes just how political and dysfunctional the process can become. According to the minutes of the meeting the actuary, Mr. McElhaney, made a specific recommendation to "decrease the assumption from 7.75% by up to .025% which would result in a new rate of 7.5%." State of Montana Budget Director Villa advocated specifically against changes in the 7.75% investment return. The Board then voted 4 to 3 against Villa's preference. According to those present Villa, although not a member of the Board, demanded a roll call. Then a motion was made to reduce the assumption to 7.5%. It failed 4 to 3. The Board then voted to keep 7.75% as the Governor's office preferred.

I have served a half dozen Governors, both Republican and Democrat. I have never witnessed this kind of gubernatorial pressure on an independent fiduciary. So now the "Governor's number" drives risk allocation and expected returns of the retirement funds.

Designing an actuarial number to fit the needs of the Governor's budget is irresponsible and dysfunctional. Why hire an actuary? In the Billings Gazette Director Villa was quoted as saying, "We've got to give this bill a little time to breathe." Actuary science is not winetasting. Budgetary needs should not drive market expectations.

Sincerely,



Gary Buchanan

STATE ADMINISTRATION AND VETERAN
AFFAIRS INTERIM COMMITTEE

October 21, 2013

Exhibit 10